Shareowners' Rights Plan - The Shareowners' Rights Plan (Plan) becomes operative in certain events involving the acquisition of 20% or more of SBC's common stock by any person or group in a transaction not approved by the Board, or the designation by the Board of a person or group owning more than 10% of the outstanding stock as an adverse person, as provided in the Plan. Upon the occurrence of these events, each right, unless redeemed by the Board, generally entitles the holder (other than the holder triggering the right) to purchase an amount of common stock of SBC (or, in certain circumstances, of the potential acquiror) having a value equal to two times the exercise price of $160. The rights expire in January 1999. After giving effect to a stock split in May 1993, effected in the form of a stock dividend, each share of common stock represents one-half of a right.

The rights have certain antitakeover effects. The rights will cause substantial dilution to a person or group that attempts to acquire SBC on terms not approved by the Board.

The rights should not interfere with any merger or other business combination approved by the Board since the rights may be redeemed.

13. Acquisitions and Dispositions

In October 1995, SBC combined its United Kingdom cable television operations with those of TeleWest Communications, P.L.C., a publicly held joint venture between Telecommunications, Inc. and U S WEST, Inc. The resulting entity, TeleWest P.L.C. (TeleWest), is the largest cable television operator in the United Kingdom. SBC owns approximately 15% of the new entity and accounts for its investment using the cost method of accounting. Restrictions expiring over the next four years exist on the sale of SBC's interest in TeleWest. SBC recorded an after-tax gain of $111 associated with the combination.

During 1995, SBC purchased at auction PCS licenses in Los Angeles-San Diego, California; San Francisco-Oakland-San Jose, California; Memphis, Tennessee; Little Rock, Arkansas; and Tulsa, Oklahoma for approximately $769. During 1996, SBC received several AT&T cellular networks in Arkansas in exchange for SBC's PCS licenses in Memphis and Little Rock and other consideration.

During 1994, SBC purchased two cable television systems located in Montgomery County, Maryland, and Arlington County, Virginia, for $650. Also in 1994, SBC acquired the domestic wireless business of Associated Communications Corporation (Associated) for $705, including wireless systems in Buffalo, Rochester, Albany and Glens Falls, New York, and in two separate transactions purchased smaller wireless systems in Syracuse, Utica and Ithaca, New York, which are adjacent to the Associated properties.

In October 1994, SBC formed a strategic alliance with Compagnie Génerale des Eaux (CGE), a French diversified public company. Through this alliance, SBC acquired an indirect 10% ownership of Société Francaise du Radiotelephone S.A. (SFR), a nationwide cellular company in France, and minority ownership interests in other communications businesses controlled by CGE, and CGE obtained an effective 10% interest in SBC's wireless operations in Washington, D.C.-Baltimore and surrounding rural markets. SBC and CGE both made contributions to the alliance. SBC's effective contribution was $376. This investment is accounted for under the equity method of accounting.

In addition to payments shown in the Consolidated Statements of Cash Flows, the 1994 acquisitions were also financed through the issuance of 16 million new and treasury shares, valued at approximately $660, and the issuance of approximately $360 of long-term debt. All of the acquisitions were accounted for under the purchase method of accounting. The purchase prices in excess of the underlying fair value of identifiable net assets acquired are being amortized over periods not to exceed 40 years. Results of operations of the properties acquired have been included in the consolidated financial statements from their respective dates of acquisition.

The above developments did not have a significant impact on consolidated results of operations for 1995 and 1994, nor would they had they occurred on January 1 of the respective periods.

Notes to Consolidated Financial Statements, continued

Dollars in millions except per share amounts

14. Additional Financial Information

Balance Sheets		December 31, 1996		1995
Accounts payable and accrued liabilities				
Accounts payable	$	2,741	$	2,639
Accrued taxes		893		472
Advance billing and customer deposits		611		672
Compensated future absences		479		477
Accrued interest		279		265
Accrued payroll		194		173
Other		1,387		1,328
Total	$	6,584	$	6,026

Statements of Income		1996		1995		1994
Interest expense incurred	$	948	$	1,000	$	935
Capitalized interest		(136)		(43)		-
Total interest expense	$	812	$	957	$	935
Allowance for funds used during construction		-	$	48	$	48

Statements of Cash Flows		1996		1995		1994
Cash paid during the year for:						
Interest	$	908	$	996	$	923
Income taxes	$	1,283	$	1,220	$	1,665

No customer accounted for more than 10% of consolidated revenues in 1996 or 1995. Approximately 10% of SBC's consolidated revenues in 1994 were from services provided to AT&T Corp. No other customer accounted for more than 10% of consolidated revenues in 1994.

Several subsidiaries of SBC have negotiated contracts with the Communications Workers of America (CWA), none of which is subject to renegotiation in 1997. Approximately 66% of SBC's employees are represented by the CWA.

Notes to Consolidated Financial Statements, continued

Dollars in millions except per share amounts

15. Spun-Off Operations

Effective April 1, 1994, PAC spun off to shareowners its domestic and international cellular, paging and other wireless operations in a one-for-one stock distribution of its 86% interest in AirTouch Communications, Inc. The stock distribution was recorded as a stock dividend from paid-in capital at the carrying amount of the net assets of spun-off operations. As a result, PAC's total assets and shareowners' equity were each reduced by $2.9 billion in 1994. The stock distribution itself was a non-cash transaction, which did not affect PAC's cash flow statement.

Under a separation agreement, any unrecorded non-tax contingent liabilities that become certain after the spin-off date will be allocated based on origin of the claim, and acts by, or benefits to, PAC or the spun-off operations. In addition, PAC's responsibilities have been terminated in connection with any future obligations under the spun-off operations' joint venture agreement with Cellular Communications, Inc., and under various financial instrument contracts.

PAC's previous interests in the net revenues and expenses of the spun-off operations prior to April 1, 1994, are classified separately as income from spun-off operations in the income statement.

The components of income from operations through March 31, 1994 are summarized below:

Operating revenues	$	259
Operating expenses		225
Operating income		34
Other income (expense)-net		22
Income before income taxes		56
Income taxes		29
Income before minority interest		27
Minority interest of other shareowners		(4)
Income from spun-off operations	$	23

PAC's cash flow statement for 1994 includes separately the cash flows of spun-off operations.

16. Restructuring Reserve

In December 1993 a reserve was established to record the incremental cost of force reductions associated with restructuring PacBell's business processes through 1997. This reserve is to cover the incremental severance costs associated with terminating more than 14,000 employees through 1997. It is also to cover the incremental costs of consolidating and streamlining operations and facilities to support this downsizing initiative. The remaining reserve balance as of December 31, 1996 and 1995, was $97 and $228, respectively.

Dollars in millions except per share amounts

17. Commitments And Contingencies

Purchase Commitments - In December 1994, PacBell contracted for the purchase of up to $2,000 of Advanced Communications Network ("ACN") facilities, which incorporated new technologies. During 1995, the ability to deploy the facilities outstripped the ACN vendors' ability to deliver necessary products and software. Accordingly, management decided to suspend construction at certain sites, which reduced the expected cost to less than $700. If ACN facilities meet certain quality and performance criteria (the Network Test), PacBell is committed to purchase the ACN facilities in 1998. If ACN facilities are acquired, due to competition or other factors affecting PacBell's ability to recover its investment in these facilities, their value to PacBell could be materially impaired. If ACN facilities fail the Network Test, PacBell will not be committed to buy the ACN facilities but might be liable to reimburse the principal ACN vendor for some construction costs up to $300, which would also result in a material charge

As of December 31, 1996, PacBell had purchase commitments of about $208 remaining in connection with its previously announced program for deploying an all digital switching platform with ISDN and SS-7 capabilities.

Revenues Subject to Refund - In 1992, the CPUC issued a decision adopting, with modification, FAS 106, "Employers' Accounting for Postretirement Benefits Other than Pensions," for regulatory accounting purposes. Annual price cap decisions by the CPUC granted PacBell approximately $100 in each of the years 1993-1996 for partial recovery of higher costs under FAS 106. In October 1994 the CPUC reopened the proceeding to determine the criteria for exogenous cost treatment and whether PacBell should continue to recover these costs. The CPUC's order also held that related revenues collected after October 12, 1994, were subject to refund plus interest pending this future proceeding. Subsequently, the CPUC reaffirmed that postretirement benefits costs are appropriately recoverable in PacBell's price cap filings.

Property Tax Investigation - In 1992, a settlement agreement was reached between the State Board of Equalization, all California counties, the State Attorney General, and 28 utilities, including PacBell, on a specific methodology for valuing utility property for property tax purposes for a period of eight years. The CPUC opened an investigation to determine if any resulting property tax savings should be returned to customers. Intervenors have asserted that as much as $20 of annual property tax savings should be treated as an exogenous cost reduction in PacBell's annual price cap filings. These intervenors have also asserted that past property tax savings totaling as much as approximately $70 as of December 31, 1996, plus interest should be returned to customers. Management believes that, under the CPUC's regulatory framework, any property tax savings should be treated only as a component of the calculation of shareable earnings and not as an exogenous cost. In an Interim Opinion issued in June 1995, the CPUC decided to defer a final decision on this matter pending resolution in a separate proceeding of the criteria for exogenous cost treatment under its regulatory framework.

Notes to Consolidated Financial Statements, continued

Dollars in millions except per share amounts

18. Quarterly Financial Information (Unaudited)

Calendar Quarter	Total Operating Revenues	Operating Income	Net Income (Loss)	Earnings per Common Share	Stock Price [4] High	Stock Price [4] Low	Stock Price [4] Close
1996							
First [1]	$ 5,574	$ 1,458	$ 888	$ 0.96	$ 60.250	$ 49.750	$ 52.625
Second	5,738	1,489	803	0.87	50.750	46.250	49.250
Third	5,957	1,532	867	0.94	51.000	46.000	48.125
Fourth	6,217	1,357	721	0.79	55.250	47.000	51.875
Annual [1]	$ 23,486	$ 5,836	$ 3,279	$ 3.56			
1995							
First	$ 5,164	$ 1,233	$ 695	$ 0.76	$ 43.875	$ 39.625	$ 42.000
Second	5,256	1,301	712	0.78	47.875	41.625	47.625
Third [2]	5,567	1,432	(5,207)	(5.64)	55.125	45.500	55.000
Fourth [3]	5,725	1,154	736	0.80	58.500	53.125	57.250
Annual [2]	$ 21,712	$ 5,120	$ (3,064)	$ (3.33)			

(1) Net Income and Earnings per Common Share reflect a cumulative effect of accounting change of $90 or $0.10 per share from change in accounting for directory operations.

(2) Net Loss and Earnings per Common Share reflect an extraordinary loss of $6,022, or $6.55 per share, from discontinuance of regulatory accounting.

(3) Operating Income reflects $139 in selling, general and administrative expenses associated with a strategic realignment of functions. These expenses include postemployment benefits for approximately 2,400 employees arising from the consolidation of operations within the five-state area, streamlining support and administrative functions and integrating financial systems.

Net Income and Earnings per Common Share reflect after-tax charges of $88 for the strategic realignment of functions and $11 for refinancing of debt and an after-tax gain of $111 from the merger of SBC's United Kingdom cable television operations into TeleWest. The net of these transactions was $12, or $0.01 per share.

(4) Represents historical trading of SBC common stock. Prices have not been adjusted to reflect the merger with PAC.

(b) Exhibits

Exhibit 18	Preferability letter on changes in accounting.
Exhibit 23-a	Consent of Ernst & Young LLP.
Exhibit 23-b	Consent of Coopers & Lybrand L.L.P.
Exhibit 27	Financial Data Schedule.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SBC Communications Inc.

/s/ Donald E. Kiernan
Donald E. Kiernan
Senior Vice President, Treasurer
and Chief Financial Officer

May 8, 1997

EXHIBIT INDEX

Exhibit Number	
18	Preferability letter on changes in accounting.
23-a	Consent of Ernst & Young LLP.
23-b	Consent of Coopers & Lybrand L.L.P.
27	Financial Data Schedule.

EXHIBIT 18

May 8, 1997

Mr. Donald Kiernan
Senior Vice President, Treasurer and
Chief Financial Officer
SBC Communications Inc.
175 W. Houston Street
San Antonio, Texas 78205

Dear Mr. Kiernan:

Note 3 of Notes to Consolidated Financial Statements of SBC Communications Inc. (SBC) included in its Form 8-K filed in connection with the merger of SBC and Pacific Telesis Group (PAC) describes changes in the methods of accounting for pensions, postretirement benefits, and sales commissions. You have advised us that you believe that the changes are to conform the accounting methods of SBC and PAC and that the new methods are preferable because the new methods for pensions and postretirement benefits are more widely used and the new method for sales commissions is prevalent industry practice.

We conclude that the changes in the methods of accounting for the items described above are to acceptable alternative methods which, based on your business judgment to make these changes for the reasons cited above, are preferable in your circumstances.

ERNST & YOUNG LLP

EXHIBIT 23-a

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Forms S-8) pertaining to the SBC Savings Plan and Savings and Security Plan (Nos. 33-54309 and 333-24295), the Stock Savings Plan, Management Stock Savings Plan and Stock Based Savings Plan (Nos. 33-37451 and 33-54291), the SBC Communications Inc. 1992 Stock Option Plan (No. 33-49855) and the SBC Communications Inc. 1995 Management Stock Option Plan (No. 33-61715), and in the Registration Statements (Forms S-3) pertaining to the SBC Communications Inc. Dividend Reinvestment Plan (No. 333-08979), and SBC Communications Capital Corporation and SBC Communications Inc. (Nos. 33-45490 and 33-56909), and in the related Prospectuses of our report dated February 14, 1997 (except Note 3, as to which the date is April 1, 1997), with respect to the supplemental consolidated financial statements included in this Current Report (Form 8-K) for the year ended December 31, 1996.

ERNST & YOUNG LLP

San Antonio, Texas
May 7, 1997

EXHIBIT 23-b

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Form 8-K of SBC Communications Inc. of our report dated February 27, 1997, on our audits of the consolidated financial statements and financial statement schedule of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996.

Coopers & Lybrand L.L.P.

San Francisco, California
May 8, 1997

EXHIBIT 27

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THIS SCHEDULE CONTAINS SUMMARY FINANACIAL INFORMATION EXTRACTED FROM SBC COMMUNICATIONS INC.'S DECEMBER 31, 1996 SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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<F2> NET SALES OF TANGIBLE PRODUCTS IS NOT MORE THAN 10% OF TOTAL OPERATING REVENUES AND THEREFORE HAS NOT BEEN STATED SEPARATELY IN THE FINANCIAL STATEMENTS PURSUANT TO REGULATION S-X, RULE 5-03(B). THIS AMOUNT IS INCLUDED IN THE "TOTAL REVENUES" TAG.
<F3> COST OF TANGIBLE GOODS SOLD IS INCLUDED IN COST OF SERVICES AND PRODUCTS IN THE FINANCIAL STATEMENTS AND THE "TOTAL-COST" TAG, PURSUANT TO REGULATION S-X,RULE 5-03(B).
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EXHIBIT 99

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareowners
of Pacific Telesis Group:

We have audited the accompanying consolidated balance sheets of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pacific Telesis Group and Subsidiaries as of December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basis financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

As discussed in Note A to the Consolidated Financial Statements, Pacific Bell, a subsidiary of Pacific Telesis Group, changed its method of recognizing directory publishing revenues and related expenses effective January 1, 1996. Also discussed in Note A, Pacific Bell discontinued its application of Statement of Financial Accounting Standards No. 71 during 1995.

/s/ Coopers & Lybrand L.L.P.

San Francisco, California
February 27, 1997

ATTACHMENT F

SBC's 1997 GROWTH PROFILE

Global wireless subscribers	4.8 million
Global access lines	32.5 million

Net income	$3.2 billion
Operating cash flow	$9.9 billion
Revenues	$23.5 billion

SBC has the **size** and **scope** to increase value in the dynamic global telecommunications marketplace

SBC COMMUNICATIONS INC.

growth profile

SBC Communications Inc. is an international leader in the telecommunications industry. At the end of 1996, SBC served more than 31 million access lines and 4.4 million wireless customers across the United States and, on a proportion of ownership basis, about one million access lines and 300,000 wireless customers through its international investments. Our businesses offer a wide range of innovative services, including local and long-distance telephone service, wireless communications, paging, Internet access, cable TV and messaging, as well as telecommunications equipment and directory advertising and publishing. SBC's overriding goal is to build value for its shareowners. We achieve that goal by meeting customer needs, creating new services, developing businesses and investing in growth opportunities, which, over time, generate returns greater than their cost of capital.

This Growth Profile provides perspectives on how SBC will seize the new growth and value-creation opportunities created by the rapidly changing telecommunications industry and by our merger with Pacific Telesis Group. In addition, it summarizes SBC's achievements and outlines SBC's disciplined management approach and growth-oriented operating and financial strategies.

Southwestern Bell PACIFIC BELL NEVADA BELL CELLULARONE

In its seven-state local exchange region — California, Texas, Missouri, Oklahoma, Kansas, Arkansas, and Nevada — SBC markets a broad range of products and services, including local, wireless and long-distance service, equipment, directories and enhanced calling services under the Southwestern Bell, Pacific Bell and Nevada Bell brand names.

Wireless, local and long-distance services are marketed under the Cellular One® brand name in the Chicago, Boston, Baltimore and Washington, D.C. metropolitan areas and a broad market area spanning upper New York state.

table of contents

SBC Communications Inc.

Restated for Pacific Telesis Merger

Income Statement

(Dollars in millions, except per share amounts)	1992	1993	1994	1995	1996
Revenue	$19,298	$20,084	$21,036	$21,712	[illegible]
Cash Operating Expense	$11,462	$13,334	$12,232	$12,558	[illegible]
EBITDA	$ 7,796	$ 6,750	$ 8,774	$ 9,154	[illegible]
Depreciation & Amortization	$ 3,552	$ 3,743	$ 3,824	$ 4,034	[illegible]
Total Operating Expenses	$15,014	$17,077	$16,056	$16,592	[illegible]
Operating Income	$ 4,244	$ 3,007	$ 4,950	$ 5,120	[illegible]
Interest Expense	$ 1,036	$ 1,005	$ 985	$ 927	$ 872
Equity in Net Income of Affiliates	$ 208	$ 250	$ 236	$ 120	$ 307
Other Income (Expense) – Net	$ 300	$ 15	$ (10)	$ 194	[illegible]
Pretax Income	$ 3,816	$ 2,247	$ 4,023	$ 4,437	[illegible]
Income from Continuing Operations	$ 2,455	$ 1,589	$ 2,777	$ 2,958	$ 3,189

Balance Sheet

Property, Plant and Equipment – Net	$33,509	$28,739	$33,431	$24,574	[illegible]
Total Assets	$46,306	$47,695	$46,113	$37,112	[illegible]
Long-Term Debt (Includes debt maturing within one year)	$13,360	$12,569	$12,551	$13,619	[illegible]
Shareowners' Equity	$17,479	$15,181	$13,497	$ 8,443	[illegible]
Book Capitalization	$30,839	$27,750	$26,048	$22,062	[illegible]
Market Capitalization (As of year-end)	$35,419	$50,321	$49,777	$66,446	[illegible]

Cash Flows

Cash Provided by Operations	$ 6,422	$ 6,168	$ 6,833	$ 6,790	[illegible]
Capital Expenditures	$ 3,969	$ 4,021	$ 3,981	$ 4,338	[illegible]
Free Cash Flow	$ 2,452	$ 2,147	$ 2,952	$ 2,452	$ 1,966

Investment

Earnings Per Share*	$ 2.74	$ 1.76	$ 3.04	$ 3.22	$ 3.86
Dividends Per Share*	$ 1.46	$ 1.51	$ 1.58	$ 1.65	[illegible]
Price Appreciation	14.5%	12.2%	-2.7%	41.8%	[illegible]
Annual Total Return	20%	16%	1%	46%	-6%

Other

Weighted Average Shareowners' Equity	$17,019	$14,361	$14,294	$12,342	[illegible]
Effective Tax Rate	32.1%	29.3%	34.5%	33.9%	[illegible]
Employees	116,520	113,760	110,398	108,190	[illegible]

*Amounts do not include dividends declared and paid by Pacific Telesis prior to merger.

Operating Performance

(Dollars in millions, unless otherwise noted)	1992	1993	1994	1995	1996
Revenue Growth	—	4.3%	4.6%	9.4%	[illegible]
EBITDA Growth	—	-13.4%	30.0%	4.5%	[illegible]
Income from Continuing Operations Growth	—	-35.3%	74.6%	6.5%	[illegible]
EBITDA Margin	40.5%	33.8%	41.8%	42.2%	[illegible]
Operating Income Margin	22.0%	15.0%	23.6%	23.6%	[illegible]
Pre-Tax Income Margin	18.8%	11.2%	20.1%	20.6%	[illegible]
Income from Continuing Operations Margin	12.7%	7.9%	13.2%	13.6%	[illegible]

Efficiency Ratios

	1992	1993	1994	1995	1996
Revenue/Average Employee	—	$174.4	$187.4	$198.7	[illegible]
EBITDA/Average Employee	—	$ 58.6	$ 78.3	$ 89.8	[illegible]
Profit/Average Employee	—	$ 13.8	$ 24.8	$ 27.1	[illegible]

Return On Investment

	1992	1993	1994	1995	1996
Return on Weighted Average Shareowners' Equity	14.3%	11.1%	19.4%	24.0%	[illegible]
Return on Total Capital	10.8%	9.5%	13.8%	15.0%	[illegible]

Capital Structure

	1992	1993	1994	1995	1996
Debt Ratio	43.3%	45.3%	48.6%	61.7%	[illegible]
Debt/Total Market Capitalization	37.7%	25.0%	25.4%	20.5%	[illegible]

Debt Service Coverage

	1992	1993	1994	1995	1996
Pre-Tax Interest Coverage	4.5x	3.2x	5.5x	5.7x	[illegible]
EBITDA Interest Coverage	7.5x	6.7x	9.4x	9.6x	[illegible]
Total Debt to EBITDA	1.7x	1.9x	1.4x	1.5x	[illegible]

investment profile

B Investment Profile

Prior to the Pacific Telesis merger, SBC created a track record of performance that was fundamentally based upon our strategies to grow our business and create shareowner value. In a dynamic and rapidly growing marketplace, SBC is committed to executing strategies that will extend this record of performance into the future. In this environment, the expanded size, scale and scope that result from the merger provide even more opportunities to create value for our shareowners.

SBC's commitment to building shareowner value is long term.

SBC Delivers Shareowner Value

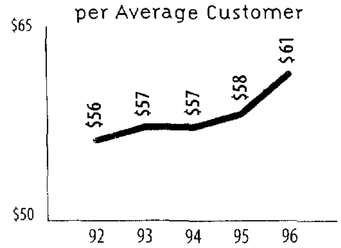
Shareowner value creation is the common goal that unifies all of our organizations across 11 states and nine countries. It is the basis of the investment discipline that keeps us focused on those areas that offer the best opportunity to maximize value and that guides our choice of one project over another and our entry into – and exit from – particular lines of business. And it is the fundamental reason we have the longest, most consistent record of outstanding financial performance of any major U.S. telecommunications company.

A Solid Record of Shareowner Value Creation

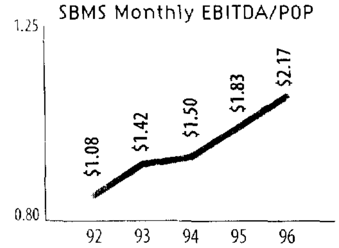
Growing Value at Our Core Operations

At SBC we understand that building shareowner value is a long-term commitment. We have maintained our focus on building value from our core operations even during challenging economic periods and regulatory and market transitions.

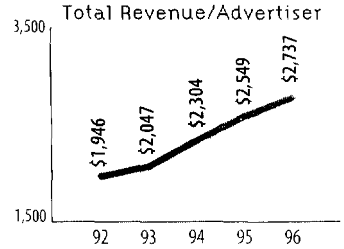
SWBT Monthly Revenue per Average Customer



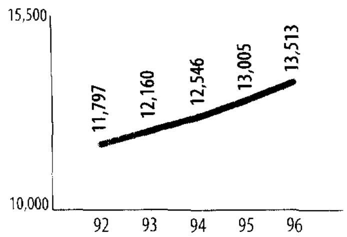
SBMS Monthly EBITDA/POP



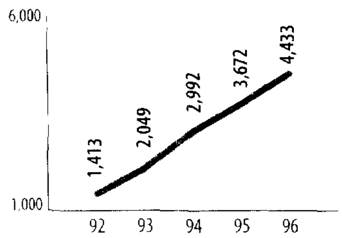
SBC Yellow Pages Total Revenue/Advertiser



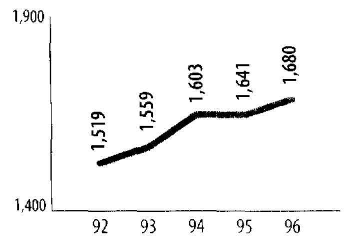
SWBT Total Customers



SBMS Total Customers



SBC Yellow Pages Total Listings



Values reflect pre-merger results

SBC has built a reputation as the most successfully diversified former Bell company.

Growing Value through Diversification

Much of SBC's success flows from our aggressive but disciplined pursuit of new growth markets and lines of business. Our insightful, opportunistic approach has enabled SBC to invest in and acquire businesses before they realize their full value – contributing to SBC's reputation as the most successfully diversified former Bell company and a leader in the global telecommunications industry.

In the past, SBC's diversification reflected the company's understanding that, during a period when core wireline businesses were heavily regulated, wireless and international markets offered more attractive opportunities to create shareowner value.

B

Acquisition Chronology

1984	1985	1986	1987	1989
• AUSTRALIA: Yellow Pages Acquisition	• ISRAEL: Yellow Pages & Israeli International Software Business Investment	• AUSTRALIA: Yellow Pages Expansion	• U.S.: Acquisition of Chicago, Boston Washington, D.C. Cellular Licenses	• UNITED KINGDOM: Cable Properties Acquisition

1990	1991	1992	1993
• MEXICO: Privatization of Telmex	• MEXICO: Expansion of Telmex Investment • U.S.: Acquisition of Virginia, West Virginia, Delaware, Central Illinois and Missouri Rural Cellular Licenses • UNITED KINGDOM: Cable TV Acquisition Expansion	• U.S.: Acquisition of Northern Illinois Cellular Licenses	• U.S.: Acquisition of Syracuse, Ithaca Cellular Licenses • UNITED KINGDOM: Cable Partnership with Cox Communications

1994	1995	1996	1997
• U.S.: [illegible] Cellular Licenses • [illegible] • [illegible] • [illegible]	• U.S.: Acquired 7 PCS Licenses through FCC Auction • CHILE: Local, Long Distance, Wireless and Video Investment • UNITED KINGDOM: Merger of UK Cable Properties with Telewest	• SOUTH AFRICA: [illegible] • CHILE: [illegible] • [illegible]	• U.S.: Merged with Pacific Telesis • [illegible] • [illegible] • [illegible]

SBC's record of double-digit earnings growth is unmatched by its peers.

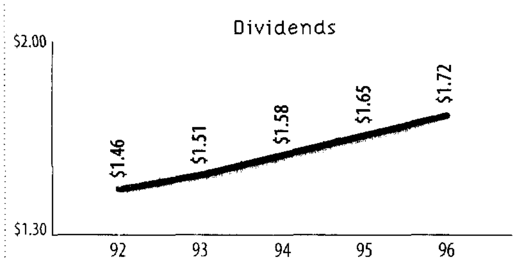
Growing Value through Regulatory Change

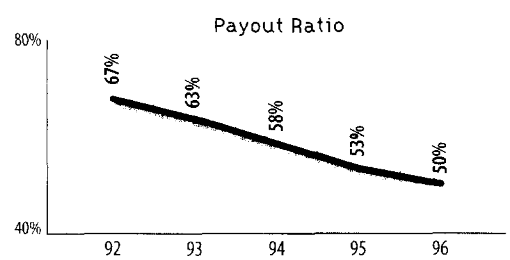
SBC has been active in stimulating and shaping the transition of the telecommunications industry from regulatory oversight to open markets. Working both at the grass-roots level and in state capitals, SBC has spearheaded regulatory and legislative change that facilitates the emergence of an open, competitive telecommunications market, including the shift from rate-of-return regulation to price caps, rate rebalancing and pricing flexibility. The success of these efforts reflects SBC's ability to align the interests of all stakeholders – telecommunications customers, employees and SBC shareowners.

June 1994	May 1996	February 1997	June 1997
• TEXAS: Telecommunications Legislation	• KANSAS: Telecommunications Act • MISSOURI: Telecommunications Act	• ARKANSAS: Telecommunications Reform Act	• OKLAHOMA: Telecommunications Act

Growing Value through Meeting Shareowner Expectations

SBC's focus on shareowners is reflected in our history of steadily increasing dividends. We've delivered this value while systematically reducing our payout ratio toward our target in the low 40-percent range, which we believe is an optimal level for growth companies operating in competitive markets. As SBC approaches this goal the company will have even greater flexibility to potentially provide larger dividend increases more in line with earnings growth in the future.





Values reflect pre-merger results

The merger with Pacific Telesis positions SBC to deliver even greater returns to shareowners.

Growing Value through Solid Financial Performance

SBC's exceptionally strong, consistent financial performance is one measure of the success of our efforts to create shareowner value through core business growth, timely and strategic diversification, a proactive regulatory strategy and the combination of steadily increasing dividends to shareowners with the strength and flexibility to invest in growth opportunities. Our five consecutive years of pre-merger double-digit earnings growth has remained unmatched by our peers.

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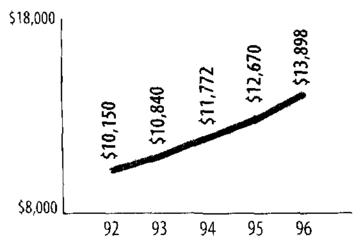
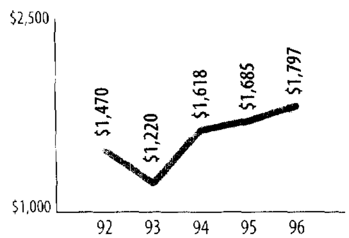
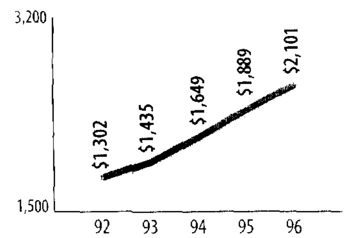


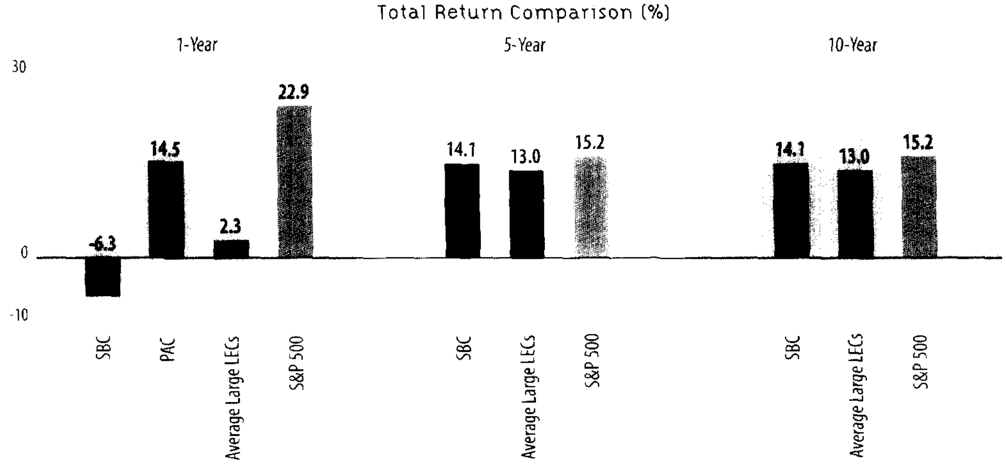




Values reflect pre-merger results

Delivering Value to our Shareowners

SBC has delivered excellent long-term return to our shareowners from our widely recognized foundation of operational and financial excellence. Now, with the rules of the competitive landscape increasingly clear and the merger of SBC and Pacific Telesis completed, we believe we are positioned to deliver even greater returns to our shareowners.



Access lines are a key competitive asset.

A Strong Platform for Delivering Value in the Future

Our Strategies for Future Growth Build upon the Accomplishments of our Past

SBC's growth strategies focus upon the best value-creation opportunities in our industry. As significant regulatory change creates new avenues for growth in both domestic and international markets, SBC is turning its focus to those new opportunities.

In the United States, key regulatory changes include the elimination of rate-of-return regulation, which creates incentives for SBC to grow our business more aggressively, and the eventual opening up of our local service markets to new competitors, which will enable SBC to offer long-distance and other interLATA services. Taken together, these changes have fundamentally altered the strategic value to SBC of local access lines. Similarly, our ability to offer long-distance service through our wireless business has led us to change how we value and leverage our wireless customer base.

Equally dramatic regulatory changes are making international markets more open and competitive. These developments not only create new investment opportunities in Europe, Asia, Africa, and Latin America, but also enhance the international importance of SBC's domestic markets.

Given these variables and the awareness that all facets of the telecommunications business will become intensely competitive, SBC believes that greater size and scale, along with access to key growth markets, are important advantages which can strengthen a company's ability to seize new growth opportunities and position itself against tough competitors.

Pacific Telesis' strategic assets — extensive local facilities, experienced employees and direct contact with premium telecommunications users in two of the top 10 U.S. metropolitan markets and in markets that set national and international trends in areas such as Internet development, high speed data traffic and residential and business applications — made the merger a perfect fit with SBC's long-term growth strategy. In a marketplace in which consumers want the option to purchase from a full-service provider with a brand name they can trust and demand top quality and overriding dedication to customer service delivered through a seemingly transparent telecommunications business operation, SBC believes that the value of our merger with Pacific Telesis is clear.